

Message Text

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11

ACTION TRSE-00

INFO OCT-01 EA-11 ISO-00 NEA-14 IO-14 L-03 H-03 PA-04

PRS-01 USIA-15 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-02 SS-20 STR-08 OMB-01 CEA-02 CIAE-00 COME-00

FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01

DRC-01 /180 W

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R 300912Z MAY 74

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 3907

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USADB

FOR NAC AGENCIES

E.O. 11652: ADS, DECLAS 5/30/75

TAGS: EAID, EFIN

SUBJECT: LENDING FOREIGN EXCHANGE FOR LOCAL CURRENCY EXPENDITURES
ON PROJECTS

REF: MANILA 5304

SUMMARY: BOARD OF DIRECTORS HELD DISCUSSION MAY 30
ON PROPOSAL FOR BANK TO UNDERTAKE FINANCING OF LOCAL
CURRENCY EXPENDITURES. ALL DIRECTORS SUPPORTED
GENERAL PROPOSAL. WORKING PAPER TO BE REVISED ON
BASIS THIS DISCUSSION AND SUBMITTED FOR BOARD
CONSIDERATION SUBSEQUENTLY. END SUMMARY

1. ON MAY 30, BOARD OF DIRECTORS CONSIDERED ADB
WORKING PAPER 5-74 ENTITLED "LENDING FOREIGN EXCHANGE
FOR LOCAL CURRENCY EXPENDITURES ON PROJECTS". PROPOSAL
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FOR BANK TO FINANCE LOCAL CURRENCY EXPENDITURE

ON LIMITED AND SELECTIVE BASIS RECEIVED GENERAL APPROVAL
OF ALL DIRECTORS.

2. DISCUSSION FOCUSED ON FOUR MAIN ISSUES:

A. CRITERIA FOR COUNTRY ELIGIBILITY--THERE WAS
GENERAL FEELING THAT CRITERIA NEEDED TO BE MORE PRECISE,
WITH EMPHASIS ON FILLING COUNTRY'S BALANCE OF PAYMENTS
GAP AND REDUCTION IN INFLATIONARY IMPACT.

B. ADB CHARTER -- QUESTION RAISED WHETHER THERE
WAS INCONSISTENCY WITH ARTICLE 13 (II) OF ARTICLES OF
AGREEMENT, WHICH ASSOCIATES CONSIDERATION OF LOCAL
COST FINANCING OF PROJECTS WITH COUNTRY'S BALANCE OF
PAYMENTS, AND ADDITIONAL FOCUS OF WORKING PAPER ON MACRO-
ECONOMIC ASPECTS OF BORROWING COUNTRY. MANAGEMENT AGREED
TO CLARIFY.

C. BANK'S HOLDINGS OF MEMBER CURRENCIES -- QUESTION
ALSO RAISED WHETHER BANK MIGHT CONSIDER USING ITS ARTICLE
6.2(B) HOLDINGS OF DEVELOPING MEMBER CURRENCIES. PRESIDENT
OPPOSED SUCH USE AS COUNTER-PRODUCTIVE IN VIEW DIFFICULTIES
THESE COUNTRIES ALREADY HAVE IN GENERATING DOMESTIC RESOURCES.

D. LIMITATION ON LOCAL COST FINANCING -- PROPOSAL
BY JAPANESE DIRECTOR (SUPPORTED BY KOREA AND U.S.) TO
ESTABLISH MAXIMUM LIMIT ON PERCENT OF TOTAL LOCAL CURRENCY
COSTS OF ANY ONE PROJECT TO BE FINANCED WITH FOREIGN EXCHANGE
WAS NOT REPEAT NOT SUPPORTED BY MAJORITY OF DIRECTORS.

3. USADB ALSO SUGGESTED THAT LAST SENTENCE OF PARA. 16
OF WORKING PAPER BE STRENGTHENED TO INDICATE THAT SPECIAL
CONSIDERATION BE GIVEN TO NEEDS OF LEAST DEVELOPED MEMBER
COUNTRIES AND INDOCHINA COUNTRIES, RATHER THAN JUST
INDICATING THEIR ELIGIBILITY FOR LOCAL CURRENCY
FINANCING.

4. PRESIDENT INDICATED WORKING PAPER WOULD BE REVISED
TO TAKE INTO ACCOUNT VIEWS OF BOARD, AND REVISED PAPER
WOULD BE SUBMITTED FOR BOARD CONSIDERATION SUBSEQUENTLY.
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